

Message Text

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ACTION ARA-20

INFO OCT-01 EUR-25 ISO-00 INT-08 AGR-20 FEA-02 TAR-02

SCI-06 AID-20 CIAE-00 COME-00 EB-11 FRB-02 INR-10

NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SPC-03 CIEP-02

LAB-06 SIL-01 OMB-01 NSC-10 SS-20 STR-08 CEA-02 L-03

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R 242015Z JAN 74

FM AMEMBASSY KINGSTON

TO SECSTATE WASHDC 3830

INFO AMEMBASSY BRIDGETOWN

AMEMBASSY GEORGETOWN

AMEMBASSY PORT OF SPAIN

AMEMBASSY LONDON

UNCLAS SECTION ONE OF TWO KINGSTON 0294/1

E.O. 11652:N/A

TAGS: ECON, JM

SUBJ: PRIME MINISTER'S JAN 23 SPEECH ON THE ECONOMY

1. IN A TWO-HOUR SPEECH TO PARLIAMENT ON THE ECONOMY ON JAN 23, THE PM SUMMARIZED THE CURRENT STATE OF THE JAMAICAN ECONOMY, EMPHASIZING THE ADVERSE EFFECTS ON ITS BALANCE OF PAYMENTS OF WORLDWIDE INFLATION, THE FUEL CRISIS AND THE INABILITY OF THE COUNTRY TO COMMAND HIGHER PRICES FOR ITS PRINCIPAL EXPORTS - BAUXITE/ALUMINA, SUGAR, BANANAS, AND THE TOURIST INDUSTRY. HE OUTLINED THE MEASURES THE GOJ HAS TAKEN TO DATE AND THE NEW ONES IT WOULD BE TAKING TO DEAL WITH THE CONTINUING FOREIGN EXCHANGE CRISIS. (THE TEXT IS BEING POUCHED TO THE DEPT AND AND ANALYSIS WILL FOLLOW BY SEPTTEL.) THERE FOLLOWS A SUMMARY OF THE PRINCIPAL POINTS IN THE PM'S SPEECH.

2. FOREIGN EXCHANGE POSITION. THE DEFICIT ON CURRENT ACCOUNT FOR CY 1973 IS NOW ESTIMATED AT J\$209 MILLION. RESERVES FELL BY J\$29 UNCLASSIFIED

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MILLION DURING THE YEAR AND STOOD AT J\$74 MILLION AT THE END OF DEC. THERE HAS BEEN A FURTHER DETERIORATION SINCE AND RESERVES AT PRESENT WILL COVER ONLY FOUR WEEKS OF FOREIGN EXCHANGE REQUIREMENTS.

3. BAUXITE/ALUMINA. MANLEY STATED THAT, AS THE PRICES RECEIVED FOR THESE HAD BEEN STATIC, THE GOJ POLICY IS TO RE-NEGOTIATE THE AGREEMENTS AS SOON AS POSSIBLE AND TO SEEK IMMEDIATE RELIEF IN THE INTERIM. NEGOTIATIONS ARE SCHEDULED TO BEGIN IN ABOUT ONE MONTH.

4. SUGAR. THE PM STATED THAT HE HAD RECENTLY HAD DISCUSSIONS WITH THE UK GOVT AND FURTHER EFFORTS WILL BE MADE AFTER COLLABORATION WITH JAMAICA'S SUGAR EXPORTING PARTNERS. HE ANNOUNCED A MEETING OF COMMONWEALTH CARIBBEAN HEADS OF GOVT FOR JAN 26-27.

5. POOR PRODUCTIVITY. THE PM NOTED THAT NOT ALL OF JAMAICA'S ECONOMIC PROBLEMS ARE EXTERNALLY GENERATED AND THAT MEASURES MUST BE TAKEN TO INCREASE LOCAL PRODUCTION TO THE EXTENT POSSIBLE.

6. MONETARY AND FISCAL POLICY MEASURES. (EFFECTIVE JAN 24) THE BANK RATE WAS INCREASED FROM 7 PERCENT TO 9 PERCENT AND THE PRIME RATE TO 11 PERCENT, THE 4 PERCENT RATE ON SAVINGS DEPOSITS WILL REMAIN BUT WILL BE INCREASED TO 6 PERCENT ON BALANCES IN EXCESS OF \$1,000. THE CREDIT CEILINGS OF COMMERCIAL BANKS ARE FROZEN AT THE AVERAGE LEVELS OF LOANS IN EXISTENCE FOR THE LAST QUARTER OF CY73. MERCHANT BANKS AND TRUST COMPANIES WILL NOT BE ALLOWED TO INCREASE LOANS WITH MATURITIES OF LESS THAN THREE YEARS BEYOND THE LEVELS EXISTING AT JAN 31, 1974. PRIORITY WILL BE GIVEN TO LOANS FOR PRODUCTIVE AND EMPLOYMENT CREATING SECTORS AND TO LOANS OF LONGER MATURITIES. COMMERCIAL BANK SHORT-TERM BORROWING ABROAD WILL BE SUBJECT TO REGULATION. THE GOJ WILL NOT PROVIDE FURTHER CREDIT TO COMMERCIAL BANKS EXCEPT IN EMERGENCIES, IN WHICH EVENT THE RATE WILL BE ONE-SIXTEENTH PERCENT PER DAY. ALL LOANS TO STATUTORY BODIES AND GOVT OWNED COMPANIES WILL BE CHanneled THROUGH THE MINISTRY OF FINANCE. NON-ESSENTIAL EXPENDITURES WILL BE ELIMINATED FROM THE BUDGET AND THE PRICE CONTROL MACHINERY WILL BE TIGHTENED.

7. EXCHANGE CONTROL. THERE WILL BE NO REDUCTION IN THE BASIC J\$500 PER PERSON, PER ANNUM TRAVEL ALLOWANCE. HOWEVER, STRONGER MEASURES WILL BE TAKEN TO PREVENT THE IMPORT OR EXPORT OF JAMAICAN AND FOREIGN CURRENCY AND THE SUBTREFUGE OF OVER-INVOICING
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OF GOODS. OVERSEAS ASSETS OF JAMAICAN CITIZENS AND RESIDENTS WILL BE BROUGHT INTO THE OFFICIAL RESERVES IN ACCORDANCE WITH THE EXCHANGE CONTROL LAW WHICH REQUIRES THE DECLARATION OF FOREIGN ASSETS BY JAMAICANS. THUS REQUIRING MANY INDIVIDUALS AND CORPORATIONS TO SELL SUCH ASSETS. THE PM SAID THAT, THUS FAR, SOME J\$56 MILLION HAD BEEN DECLARED. THE TIME LIMIT IN WHICH MIGRANTS FROM JAMAICA WILL BE PERMITTED TO TAKE THEIR ASSETS FROM JAMAICA HAS BEEN EXTENDED FROM FOUR YEARS TO FIVE. OVERSEAS GIFTS WILL BE REDUCED FROM J\$200 TO J\$100.

8. IMPORT RESTRICTIONS. BASED ON CURRENT PROJECTIONS FOREIGN EXCHANGE EXPENDITURES ON IMPORTS MUST BE HELD TO J\$645 MILLION

IN CY 74, AN INCREASE OF SOME J\$40 MILLION OVER 1973. THE REQUIREMENT FOR CAPITAL GOODS, RAW MATERIALS AND INTERMEDIATE GOODS IS ESTIMATED AT J\$500 MILLION. CONSUMER GOODS WILL, THEREFORE, BE LIMITED TO J\$145 MILLION, J\$31 MILLION BELOW THE 1972 LEVEL AND J\$79 MILLION BELOW THE 1973 LEVEL. AS THE FOOD BILL AMOUNTS TO SOME J\$78 MILLION ONLY J\$67 MILLION WILL BE AVAILABLE FOR DURABLE AND NON-DURABLE CONSUMER GOODS VS J\$104 MILLION IN 1972. THEREFORE THE FOLLOWING STEPS WILL BE TAKEN:

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C O R R E C T E D C O P Y - PARA NUMBERING: (SECTION TWO)

SHOULD BE 9 THRU 13 VICE 10 THRU 14

A. THE BULK OF IMPORTS OF CONSUMER ITEMS WILL REQUIRE SPECIFIC IMPORT LICENSES.

B. A TOTAL BAN WILL BE IMPOSED ON THE FOLLOWING:

DUCKS, TURKEYS, APPLES, CIDER, GIN, TOYS, GREETING CARDS AND CALENDARS, HANDKERCHIEFS, UNDERWEAR AND NIGHTWEAR OF MATERIALS EXCEPT COTTON, HANDBAGS AND WALLETS, AND TABLE AND OTHER HOUSEHOLD DECORATIVE ARTICLES MADE OF PLASTIC.

C. MERCHANTS WILL BE PERMITTED TO IMPORT ONE POUND OF TEXTILE FOR EVERY POUND OF FABRIC PURCHASED FROM LOCAL AND CARIFTA/CARICOM SOURCES VS THE PRESENT RATION OF TWO FOR ONE.

D. IMPORTS OF MOTORCARS WILL BE LIMITED TO J\$5M OF WHICH J\$4.3 HAS ALREADY BEEN COMMITTED. DIPLOMATIC PERSONNEL WILL BE EXCEPTED.

E. IMPORTS OF MOTORCARS WILL BE SUBJECT TO A CIF VALUE OF UNCLASSIFIED

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J\$3,000 AND TO A CC RATING OF 3,000.

F. FURTHER IMPORTS OF VEHICLES UNDER THE GROUND TRANSPORT SCHEME FOR THE TOURIST INDUSTRY WILL BE SUSPENDED FOR THE REMAINDER OF 1974.

G. FOR 1974 J\$10M WILL BE ALLOCATED FOR COMMERCIAL VEHICLES, COMPARED WITH J\$8.9 IN 1973.

9. FUEL PRICES. IN ORDER TO RECOUP SOME OF THE REVENUE WHICH WILL BE LOST THROUGH THE IMPOSITION OF THE IMPORT RESTRICTIONS, THE PRICES OF FUEL WERE RAISED, EFFECTIVE JANUARY 24 AS FOLLOWS: GASOLINE - PREMIUM, FROM 64.4 CENTS TO \$1.20; REGULAR, FROM 52.2 CENTS TO \$1.10 DIESEL - ORDINARY, FROM 32.9 CENTS TO 35.9 CENTS CONSUMER (INDUSTRIAL), FROM 31.4 CENTS TO 47 CENTS) AS KEROSENE IS AN ESSENTIAL FUEL FOR THE USE OF THE POORER HOUSEHOLDS, THE PM STATED THAT THERE WOULD BE NO CHANGE.

10. EXCISE TAXES. THE CONSUMPTION TAX ON IMPORTED SPIRITS, INCLUDING WHISKEY, WINE, BRANDY, CORDIALS AND LIQUERS, WILL BE INCREASED TO 75 0/0 OF THE IMPORT DUTY. THE RETAIL SALES TAX ON MOTORCARS WILL BE INCREASED FROM 25 0/0 TO 50 0/0. A SALES TAX OF 75 0/0 WILL BE IMPOSED ON AIR CONDITIONERS AND ELECTRIC LA AND GAS WATER HEATERS.

11. PRODUCTION PROGRAM. IN ORDER TO STRIKE A POSITIVE NOTE IN AN OTHERWISE DREARY PRESENTATION, THE PRIME MINISTER OUTLINED SEVERAL FAMILIAR ONGOING PROGRAMS IN AGRICULTURE AND INDUSTRY AND ANNOUNCED SOME NEW ONES.

A. THE BANANA BOARD IS TO PROMOTE THE ESTABLISHMENT OF 10,000 NEW ACRES OF BANANAS IN 1974-6,000 DIRECTLY BY THE BANANA BOARD AND 4,000 BY PRIVATE FARMERS. LOAN FUNDS OF J\$3.5M AT A CONCESSIONARY RATE HAVE BEEN SECURED. WHEN THE ACREAGE COMES INTO FULL PRODUCTION, AN ADDITIONAL 60,000 TONS OF BANANAS WILL BE PRODUCED.

B. THE NEWLY-ESTABLISHED SUGAR MANUFACTURING CORP. WILL BEGIN OPERATION SHORTLY AND ITS FIRST TASK WILL BE TO FORMULATE A DEVELOPMENT PLAN.

C. THE JAMAICAN DEVELOPMENT BANK WILL EMBARK ON A J\$7 MILLION, FOUR YEAR PROGRAM FOR THE DEVELOPMENT OF CITRUS, AVACODOS, COCONUTS, BEEF CATTLE AND DAIRYING.

D. THE GOJ WILL INTENSIFY ITS ACTIVITIES TO IMPROVE THE MANAGEMENT OF THE LAND-LEASE AND FOOD-FARM PROJECTS.

E. NEW TAX INCENTIVES FOR JAMAICAN EXPORTS.

F. EXPANDED EXPORT CREDIT INSURANCE.

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G. THE FIRST BERTH AT THE KINGSTON TRANSHIPMENT PORT WILL BE COMPLETED IN OCT, 1974 AND WAREHOUSE FACILITIES WILL BE READY IN JULY.

H. THE GOJ WILL GIVE PRIORITY ATTENTION TO THE IMPORTATION OF

SPARE PARTS TO MAINTAIN EXISTING CAPITAL EQUIPMENT. IT WILL EX-
AMINE THE DUTY STRUCTURE ON SUCH ITEMS.

12. ROLE OF ECONOMIC COUNCIL STRENGTH

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